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C O N F I D E N T I A L SECTION 01 OF 03 TAIPEI 003676

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TAGS: [EAGR](#) [ETRD](#) [ECON](#) [PREL](#) [CH](#) [TW](#)
SUBJECT: CROSS-STRAIT AGRICULTURE - KMT-CCP PROPOSALS OFFER
LITTLE BENEFIT TO TAIWAN FARMERS

REF: A. 05 TAIPEI 2243
[1](#)B. TAIPEI 1341

Classified By: AIT Deputy Director Robert S. Wang, Reason 1.4 b/d

[1](#)1. (C) Summary: After a Kuomintang-Chinese Communist Party (KMT-CCP) forum in Hainan, the PRC announced 20 new proposals on cross-strait agricultural exchanges. However, the package seems primarily to benefit Taiwan farmers and agribusinesses who invest in the PRC, offering little to producers in Taiwan. In addition, the PRC agreed to ease oversupply in Taiwan by buying 2,000 metric tons of bananas. The 20-point package and banana purchase are part of continuing efforts by the KMT to appeal to farmers and southern Taiwan voters, but many of these proposals are unlikely to generate much enthusiasm and could even backfire. End summary.

[1](#)2. (U) KMT Honorary Chairman Lien Chan led a 200-person delegation of Pan-Blue politicians and industry representatives to a cross-strait meeting on agriculture October 16 and 17. The Cross-strait Agricultural Cooperation Forum was held in Boao, Hainan. KMT organizers had originally hoped to hold the event in Taiwan, but Taiwan's Mainland Affairs Council refused in September to allow PRC Taiwan Affairs Office Director Chen Yunlin to travel to Taiwan, citing procedural issues. Jia Qinglin, a member of the Politburo Standing Committee of the CCP co-hosted the event with Lien. Hu Jintao had reportedly intended to travel to Hainan to meet with Lien during the forum but was unable to because of the nuclear test in North Korea, according to Taiwan media reports.

20-Point Proposal - Investment, Imports and IPR

[1](#)3. (U) On October 17, the PRC issued a statement with 20 consensus measures to improve agricultural exchanges across the Strait.

-- Investment - Twelve of the measures are aimed primarily at increasing Taiwan agricultural investment in the PRC. These measures propose further development of special agricultural cooperation zones, facilitating imports of seeds, seedlings and root stocks for cultivation in the Mainland, and strengthening consulting services for Taiwan agricultural investors in the PRC.

-- Trade Facilitation - Six of the measures seek to facilitate imports of Taiwan agricultural goods. One measure calls for the PRC to actively support the participation of Taiwan farmers and agricultural organizations in exhibitions and sales promotion events in the Mainland. The others ease import requirements for specific products including veterinary products, seafood, orchids, cactus, ginseng, and live agricultural goods.

-- Taiwan Geographic Indicator - The last two measures address concerns among Taiwan farmers about agricultural goods sold in the PRC falsely labeled as products of Taiwan. One calls for PRC agencies to strengthen market supervision, strictly differentiating between Taiwan produced fruit and Taiwan varieties of fruit produced elsewhere. The last measure welcomes Taiwan producers and distributors to register trademarks in the PRC.

Off the Mark and Lacking Firepower

14. (C) This latest package of cross-Strait agricultural cooperation measure offers very little to Taiwan exporters. Packages announced in August 2005 and May 2006 after previous KMT-CCP meetings offered expanded market access and duty-free treatment for Taiwan agricultural goods. In August 2005, the PRC announced that it would grant duty-free treatment to 15 varieties of Taiwan fruit. In May 2006, another 11 vegetable varieties and 8 kinds of seafood products were granted duty-free access. In addition, both earlier packages opened the PRC market to previously prohibited Taiwan

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agricultural products. These earlier measures have had a small but significant effect on Taiwan agricultural exports. Although Taiwan's fruit exports to the PRC in the first eight months of 2006 were up 40 percent compared to the same period a year ago, at US\$1.1 million, they still represent a very small portion of Taiwan's total fruit exports of US\$30.2 million during the period. This latest package offers even less to Taiwan agricultural exporters and is unlikely to have any significant economic impact. Former COA Chairman Sun Ming-xian, who participated in the KMT-CCP forum, told AIT/T that the trade facilitation measures in the package will have no practical economic benefit for Taiwan's farmers.

15. (C) The only duty-free treatment offered to Taiwan firms in the new package is for Taiwan investors who want to import agricultural inputs to the Mainland. The entire package seems to favor Taiwan investors in the PRC more than any other stakeholders. This could fuel criticism from those in Taiwan who have already complained that the PRC's overtures to Taiwan on agricultural policy are aimed primarily at securing Taiwan's agricultural technology. In addition, Taiwan invested farms in the PRC producing Taiwan strains of fruits and other agricultural products compete with Taiwan exports. An October 17 Council of Agriculture (COA) statement accused the PRC of stealing Taiwan technology and varieties. According to COA, Taiwan businesses have already invested NT\$10 billion (US\$300 million) in Hainan province alone where 500 strains of Taiwan agricultural products are grown. Chen Wu-hsiung, a foundation fellow at the KMT's National Policy Foundation and a key participant in the agricultural discussions, told AIT/T that neither the KMT nor the agricultural organizations that participated in the conference seek to encourage Taiwan farmers and agribusinesses to invest in the PRC. Instead they see continuing agricultural investment in the Mainland as inevitable and want to create the best environment possible for Taiwan farmers and businesses who go there.

¶6. (C) As Chen pointed out, the most important accomplishment of the conference from the perspective of Taiwan's domestic economy is perhaps the PRC's commitment to address complaints in Taiwan about produce sold in the PRC falsely labeled as Taiwan products. However, the PRC's record on the protection of intellectual property rights suggests these measures may not have much impact. The KMT seems unprepared to take the kind of additional action that would be required to ensure that these measures have results. When asked what kind of follow-up the KMT had planned on this issue, Chen replied "none," explaining that the decision had been made by the PRC authorities and the appropriate agencies in the PRC had been instructed.

Starting a Banana War

¶7. (U) At the same time that the KMT and CCP discussed these long-term initiatives, they also reached an agreement for the PRC to buy surplus bananas from Taiwan. Taiwan banana growers have suffered from extremely low prices due to overproduction. Because last year's crop was disrupted by a particularly severe typhoon season, growers increased output to cash in on higher prices, which reached NT\$60 per kilogram (about US\$0.83 per pound) in March and April. Oversupply, which emerged at the end of June, has caused prices to plummet to under NT\$5 per kilogram (about US\$0.07 per pound).

¶8. (U) China agreed to buy 2,000 metric tons of surplus bananas for NT\$10 per kilogram. According to media reports, Taiwan Affairs Office Director Chen Yunlin made the announcement while seeing off Lien Chan at the airport in Xiamen on October 19. In response, Taiwan's COA reportedly announced on October 23 that it would buy an unlimited amount of bananas for NT\$10 per kilogram, after previously agreeing to pay only NT\$3 per kilogram.

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Former Taiwan President Lee Teng-hui criticized the PRC purchase as another example of "united front" tactics. A KMT lawmaker, on the other hand, called on Taiwan to permit special cross-Strait banana charter flights to help Taiwan producers.

Comment - Selling Sour Milk

¶9. (C) This latest package of cross-Strait agricultural proposals announced by the PRC after meetings with the KMT seems to promise remarkably little economic benefit to Taiwan farmers. Former COA Chairman Sun commented that the real aim of the proposals is instead to gain support from southern Taiwan voters who have generally supported the ruling Democratic Progressive Party. However, the 20-point package seems to offer them little. The only thing they might get out of it is more competition from compatriots who have invested in Mainland. The goal of spreading the advantages of cross-Strait economic integration to groups in Taiwan who may not have previously benefited from closer ties to the Mainland may be an admirable one. However, this latest KMT-CCP "united front" tactic seems particularly transparent and cynical. The October 17 package appears unlikely to gain additional electoral support for the KMT in southern Taiwan and could even backfire.

YOUNG